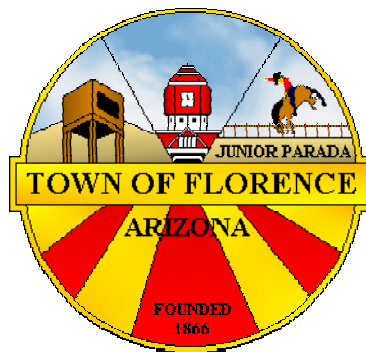
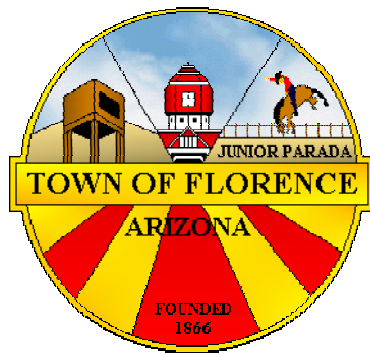


# **TOWN OF FLORENCE, ARIZONA**

## **ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2005**





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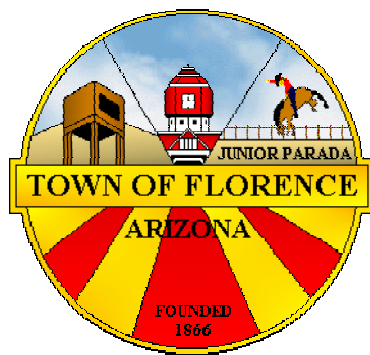
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## **FINANCIAL SECTION**





HENRY & HORNE, LLP  
Advisors to Business

## Independent Auditors' Report

The Honorable Mayor and Council  
Town of Florence, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Florence (the Town), Arizona, as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Florence, Arizona, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2005 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Mayor and Council  
Town of Florence, Arizona  
Page Two

The management's discussion and analysis on pages 5 through 13, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

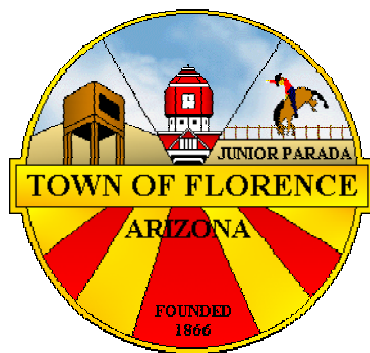
*Hong-Hong, LLP*

August 30, 2005



## **FINANCIAL SECTION**

### MANAGEMENT'S DISCUSSION AND ANALYSIS



## **Management's Discussion and Analysis**

This discussion and analysis is intended to be an easily readable breakdown of the Town of Florence financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations and should be read in combination with the transmittal letter that begins on page one and the financial statements that follow.

### **Report Layout**

Besides the Management's Discussion and Analysis, (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of nonmajor funds and supplementary information.

The first several statements are highly condensed and present a government-wide view of the Town's finances and operations. Within this view, all Town operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services like public safety, culture and recreation, community services, public works and general governmental administration. Business-type activities are water, sewer, and sanitation. The government-wide statements include the Statement of Net Assets and Statement of Activities.

### **Statement of Net Assets**

The Statement of Net Assets presents the unrestricted assets of governmental and business-type activities. Governmental and Business-type activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long reported capital assets and long term liabilities.

Net assets, the difference between assets and liabilities provide a measure of the Town's financial strength, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the Town's privilege tax or property tax base or the condition of roads, parks and libraries to accurately assess the overall health of the Town.

### **Statement of Activities**

The Statement of Activities presents the major program costs and matches major resources with each. To the extent that direct charges and grants do not recover a program's cost, it is paid from general taxes and other resources. The statement simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Following the government-wide statements is a section containing fund financial statements. These statements reinforce information in the government-wide financial statements or provide additional information. The Town's major funds are presented in a separate column titled, "Other Governmental Funds". For each major fund, a Budgetary Comparison Statement is presented. Users who want to obtain information on nonmajor funds can find it in the Combining Schedules of Nonmajor Funds and/or the Supplemental Information-Budgetary Comparison Schedules of this report. Finally, the report provides a series of other financial and statistical schedules.

The MD&A is intended to explain significant changes in the financial position and differences in operations between current and prior years

## Town as a Whole

A condensed version of the Statement of Net Assets at June 30, 2005 and 2004 follows.

### Condensed Statement of Net Assets (in Thousands)

	Governmental Activities	Business-type Activities	Total Government
2005			
Current and other assets	\$ 11,637	\$ 6,215	\$ 17,852
Capital assets	27,502	6,539	34,041
Total assets	39,139	12,754	51,893
Other liabilities	1,787	339	2,126
Long-term liabilities	2,880	673	3,553
Total liabilities	4,667	1,012	5,679
Net assets:			
Invested capital assets			
net of related debt	25,886	5,866	31,752
Restricted	14,221	-	14,221
Unrestricted	(5,635)	5,876	241
Total net assets	\$ 34,472	\$ 11,742	\$ 46,214

### Condensed Statement of Net Assets (in Thousands)

	Governmental Activities	Business-type Activities	Total Government
2004			
Current and other assets	\$ 8,433	\$ 5,300	\$ 13,733
Capital assets	17,845	6,480	24,325
Total assets	26,278	11,780	38,058
Other liabilities	1,961	98	2,059
Long-term liabilities	3,619	555	4,174
Total liabilities	5,580	653	6,233
Net assets:			
Invested capital assets			
net of related debt	14,226	5,925	20,151
Restricted	-	2,440	2,440
Unrestricted	6,472	2,762	9,234
Total net assets	\$ 20,698	\$ 11,127	\$ 31,825

## Statement of Net Assets at June 30, 2005:

During fiscal year 2004-2005 several major events changed the balance of net assets:

The Town's overall financial position has improved during the year as reflected in the increase in net assets above. Cash and investments increased \$3,204,000 due to increases in intergovernmental revenue, increases in user fees, and cost containment. Liabilities decreased due to paying off debt. Additionally the unrestricted net assets of both the governmental and business-type activities amount to \$34,472,000 and \$11,742,000 respectively. This provides a useful measure of the Town's net assets available for spending at the end of the fiscal year.

There are no restrictions in restricted net assets of business type activities. The restrictions represent legal or contractual obligations on how the assets may be expended. Within the governmental activities category are taxes and other collections limited to specific transportation construction projects and the repayment of debt. Within the business type activities are bond proceeds, and debt service reserves.

### *Governmental Activities*

Addition of Infrastructure: By far the largest change was the inclusion of general government capital assets and infrastructure (land, road and bridge improvements, streets, etc.). This was for annexation of Merrill Ranch on Hunt Highway.

Infrastructure and other improvements total approximately \$22 million with street related components accounting for \$18 million of that entire total. The non-land portion of improvements, are now depreciated and the accumulated depreciation at year-end is \$6.6 million. Long term debt totaling \$2.9 million. The addition of infrastructure overshadowed the current year activities.

### *Business –type Activities*

Infrastructure and other improvements total approximately \$10.5 million. The non-land portion of improvements, are depreciated and the net value is \$5.8 million. Long term debt totaling \$672,695 reflects monies borrowed from the Water Infrastructure Financing Authority for the new sewer plant which was estimated at \$6.5 million and the last principal payment of \$55,000 for water bonds issued in 1975.

The Water Fund added \$24,132 in capital purchases. This included a power strip for a well-\$6,775, Engineering on Project U24-18" bore at State Highway 79 and Hunt Highway, Engineering on Project U25-relocate water line on State Highway 79-\$4,015, Professional Consultant on Project U37-Water system tie-in-\$9,327.

The Florence Sewer Fund continued its Sewer Plant improvements, expending \$429,887 for the construction of the Sewer Plant on Plat Road, Professional Consultant on Project U-19-Aerated Lagoon Closure-\$6,275, Professional Consultant on Project U18-Waste Water Master Plan-\$5,796, and replacement vehicle-\$14,694.

Sanitation Fund purchased a Telescopic Boom Loader. The cost of this was shared equally with the Highway User Fund. Sanitation's portion was \$24,349.

Statement of Activities for the Year Ended June 30, 2005 and 2004:  
A summary of the statement of activities follows:

Changes in Net Assets (in Thousands)			
	Governmental Activities	Business-type Activities	Total Government
	2005		
Program revenues			
Charges for services	\$ 1,066	\$ 3,339	\$ 4,405
Operating grants	144		144
Capital grants and contributions	902		902
General revenues			-
Taxes	1,692		1,692
Intergovernmental	6,478		6,478
Donation of capital assets	9,806		9,806
Miscellaneous	791	143	934
Total revenues	20,879	3,482	24,361
Expenses			
General government	1,541	-	1,541
Public safety	2,506	-	2,506
Highways and streets	1,821	-	1,821
Culture and recreation	1,122	-	1,122
Community development	793	-	793
Interest on long-term debt	306	-	306
Water	-	670	670
Sewer	-	671	671
Sanitation	-	458	458
North Florence Water	-	424	424
North Florence Sewer	-	374	374
Total expenses	8,089	2,597	10,686
Excess before transfers	12,790	885	13,675
Transfers in (out)	270	(270)	-
Change in net assets	13,060	615	13,675
Beginning net assets	21,412	11,127	32,539
Ending net assets	\$ 34,472	\$ 11,742	\$ 46,214

Changes in Net Assets  
(in Thousands)

	Governmental Activities	Business-type Activities	Total Government
	2004		
Program revenues			
Charges for services	\$ 531	\$ 3,213	\$ 3,744
Operating grants	-		-
Capital grants and contributions	2,633		2,633
General revenues	-		-
Taxes	1,662		1,662
Intergovernmental	3,314		3,314
Donation of capital assets	-		-
Miscellaneous	606	73	679
Total revenues	<u>8,746</u>	<u>3,286</u>	<u>12,032</u>
Expenses			
General government	1,963	-	1,963
Public safety	2,223	-	2,223
Highways and streets	1,329	-	1,329
Culture and recreation	1,145	-	1,145
Community development	132	-	132
Interest on long-term debt	242	-	242
Water	-	1,343	1,343
Sewer	-	821	821
Sanitation	-	457	457
North Florence Water	-	-	-
North Florence Sewer	-	-	-
Total expenses	<u>7,034</u>	<u>2,621</u>	<u>9,655</u>
Excess before transfers	1,712	665	2,377
Transfers in (out)	-	-	-
Change in net assets	1,712	665	2,377
Beginning net assets	18,986	10,462	29,448
Ending net assets	<u>\$ 20,698</u>	<u>\$ 11,127</u>	<u>\$ 31,825</u>

*Government Activities*

The cost of all governmental activities this year was \$8.1 million. \$1.1 million of this cost was paid for by those who directly benefited from or contributed to the programs. \$1.4 million was subsidized by grants received from other governmental organizations for both capital and operating activities, and \$1.7 million was financed through general Town taxes. Other governmental revenues, including inter-governmental aid and interest amounted to \$17.1 million

The Town's governmental functions include the following: general government, community services, culture and recreation, public safety and public works.

Governmental program expenses increased from the prior year. Net costs of services decreased because of increased user fees.

### *Business-type Activities*

The cost of providing all business-type activities this year was \$2.6 million. All of this cost was paid by users.

The Town's business-type programs include the following: water, sewer and sanitation.

North Florence Water and North Florence Sewer funds did not generate enough revenue to cover the cost of operations during the current year. The deficit in these programs was offset by prior years fund balance. The Sanitation fund, which had run in a deficit in prior years, has benefited from decreased costs. This year it was able to repay the Water Fund \$14,939, the balance owed from prior years, for monies borrowed in prior years.

The increase in sewer fees generated sufficient funds to cover debt service reserve and to insure the ability to make our debt service payment.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

As of June 30, 2005 the Town had invested \$44.9 million in capital assets as reflected in the following table. Assets increased from the prior year in the amount of \$11,868,000. Of the total additions reflected below, \$11,433,000 represents current year infrastructure additions. The majority of the increase in capital additions is due to the infrastructure assets acquired through annexation in the streets in the Governmental Activities. Accumulated depreciation reflects the allowance for aging of assets and the result of assets less accumulated depreciation equals the new value of fixed assets in total.

The following table reconciles the changes in capital assets.

	2004	Additions	Dispositions	2005
Total Town Assets	48,567,483	12,291,780	(403,751)	60,455,512
Accumulated Depreciation	13,811,658	2,070,533	(372,034)	15,510,157
Net Fixed Assets	\$34,755,825	\$10,221,247	(\$31,717)	\$44,945,355

Additional information of the Town of Florence capital assets can be found in the notes to the financial statements.

#### *Debt Administration*

As of year-end, the Town had \$3.5 million in debt outstanding compared to \$4.2 million last year. There were no additions to debt to the Governmental Activities. A net reduction of \$620,868 in debt resulted in the Governmental Activities. An additional reduction of \$390,000 in principal occurred to the North Florence Improvement District #1 debt. Prior year pay-offs had been made and those coupled with recent pay-offs allowed the Town to apply additional principal payment against the debt and reduce the future payments.



Debt Service Balances  
Fiscal Year 2004-2005

Description	Fund	June 30, 2004	Principal Borrowed	Principal Payments	June 30, 2005
Florence Utility Improvement District #1	41	1,235,000		(440,000)	795,000
Florence Water Project	51	55,000		(55,000)	-
Certificates of Participation 1997	10	1,310,000		(190,000)	1,120,000
Water Infrastructure Finance Authority	52	500,000	423,177	(250,486)	672,691
Giles Land Purchase	10	753,003		(24,567)	728,436
National Bank of Arizona-Equipment Line	10	110,636		(42,902)	67,735
Zion National Bank-Street Light Purchase	12	183,184		(29,634)	153,550
Toshiba-Public Works Copier	12	13,099		(4,838)	8,261
Kansas State Bank-Library Copier	10	13,783		(6,617)	7,166
		<u>\$4,173,706</u>	<u>\$423,177</u>	<u>(\$1,044,045)</u>	<u>\$3,552,838</u>

Additional information on the Town of Florence long-term debt can be found in the notes to the financial statements.

The Arizona State Constitution and Statutes limit the amount of general obligation debt that a municipality may issue by providing two tests. Under the first test, general obligation debt for a specific purpose such as supplying water or sewer services and recreational playground facilities may not exceed 20% of the Town's secondary assessed valuation. Under the second test, a Town may not insure general obligation debt for general municipal purposes in an amount that exceeds 6% of the Town's secondary assessed valuation.

### **Economic Factors**

#### *Governmental Funds*

The Town relies heavily on state shared revenues. During the year 61% of the general fund revenues were derived from state shared revenues and 97.5% of the Highway User Fund revenues for a ratio of 93.94% of governmental funds. Because of the correctional facilities located within the Town limits, the apportionment of state shared revenues has assisted the Town in providing increased demand for services within the municipal limits. The retail picture has not provided sufficient privilege tax revenues to sustain the operational costs of general government. The retail picture will depend upon future development of housing, commercial and industrial business within the community.

The following business developments have provided additional resources for the Town:

Anthem	Artie's on Main
Aspen Farms	Best Western Inn & Suites
Farmers Insurance Group	Florence Family Dentistry
Florence Plaza (phase I)	Florence Views
Merrill Ranch	Mesquite Trails
Monterra	Mount Athos Greek Restaurant and Café
Rosati's	Subway
The Focal Point Vision Center	The Grille on Main
Pinal County Youth Detention Center	

### *Business-type Funds*

The rates for the Sewer Fund in Florence were increased 8% starting in July 2004. This was to bring the revenues needed for support of the Debt Service for the new sewer plant.

A rate study was contracted with MuniFinancial to evaluate existing Utility Rates and Utility Development Impact Fees. The study started in July 2004 and completed on June, 2005. Rate increases were recommended for water and sewer and sanitation. A combined water and combined sewer rate replaced the existing separate rates for North and South Florence. The study was based upon our Capital Improvement Plan.

### **Next Year's Budget and Rates**

The 2005-2006 fiscal year operating budget did not increase over last year. The operating budget was prepared with an increase in property tax rate from 95.97% to 97.88%. This was used to supplement the General Fund Revenues.

The 2005-2006 Capital Budgets for next year is limited to the following projects:

General Fund for \$212,100 as follows:

Color/Black & White Copier for Town Hall-\$19,000, Equipment and Security System for the Fire Department-\$18,600, Equipment for Information Technology-\$5,500, Vehicle for Planning & Zoning, 4 Police Replacement Vehicles-\$120,000, Vehicle for the Parks Department-\$17,000 and a Portable Stage for the Recreation Department-\$10,000.

Capital Project Fund \$2,064,000 for Town Construction that includes a Police Storage Building-\$65,000, Information Technology Interconnectivity Project-\$47,150.

Highway User Fund for \$4,110,000 for building improvements, vehicles and equipment, and street and road improvements.

Water Fund for \$1,645,000 for water meters, valves, hydrants, water line replacements and extensions, bore, wells, water master plan, and storage tank.

Sewer Fund for \$5,238,000 for manhole replacements, main interceptor, wastewater master plan, sewer main extension and replacement, office improvements, one vehicle and sewer plant expansion, improvements and closure costs.

North Florence Sewer Fund for \$90,000 a lift station, bore, sewer line extensions and wastewater master plan.

Sanitation Fund for \$195,000 for land acquisition for a sanitation facility and a garbage truck replacement.

Various grants and special revenue for community improvements in the amount of \$3,934,739.

Town has set aside \$2,064,000 for capital projects for town facilities. The source of these funds comes for the 2% Construction Fund and the 2% Food Tax Fund.

Monitoring of existing programs and services will be continued for Budget Year 2005-2006. Performance measurement standards will be set for cost to benefit ratios, and services that do not meet the threshold will be recommended for termination. Personnel costs and benefits continue to be monitored.

Rate increases for the Florence Water Fund are set as follows: July 2005, new rates and fees will go into effect with an increase to base fees and rates north of the river to bring them to an equal rate with the utility customers south of the Gila. New fees will be implemented for water meters and services offered to utility customers.

Rate increases for sewer will impact all sewer rates and fees. The Town Council unified the rates to make them equal for all users. This will provide a new base for both Florence and North Florence and an increase in the rate per 1,000 gallons. Usage will be based upon 75% of water usage for residential customers. An additional \$1,000,000 will be borrowed to complete the wastewater plant currently under construction.

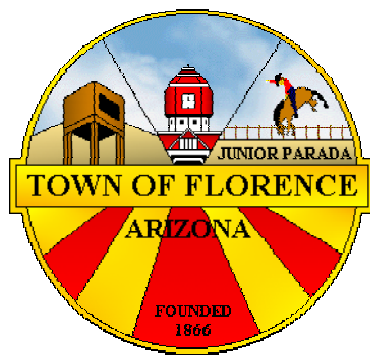
Water and Sewer Development Impact Fees for new development have been evaluated and reviewed as a part of the rate study. These fees are designed to offset the cost of new infrastructure and services required to serve a growing population. These will be implemented on October 5, 2005.

Impact fees for transportation, public works, public safety, recreation and culture, and general government were implemented in January 2005.

The Capital Improvement Plan has been updated. This guideline will provide the town with a planning document to project capital purchases for the next seven years.

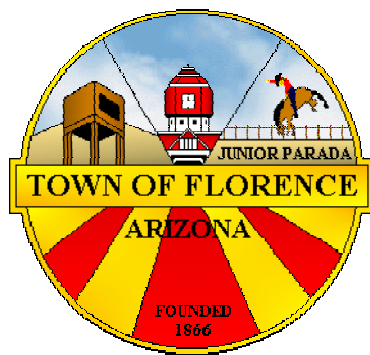
### **Financial Contact**

The Town's financial statements are designed to present users (citizens, taxpayers, investors, customers and creditors) with general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Town's Finance Director at 775 North Main Street, Florence, Arizona 85232.



## **FINANCIAL SECTION**

### **BASIC FINANCIAL STATEMENTS**



Town of Florence, Arizona  
Statement of Net Assets  
June 30, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,794,354	\$ 5,878,381	\$ 15,672,735
Receivables (net of allowance for uncollectibles)	741,080	336,629	1,077,709
Special assessment receivable	788,764	-	788,764
Due from other governments	18,884	-	18,884
Prepays	293,795	-	293,795
Capital assets:			
Land right of way	9,930,781	336,674	10,267,455
Other capital assets (net of accumulated depreciation)	17,571,535	6,202,082	23,773,617
Total assets	<u>39,139,193</u>	<u>12,753,766</u>	<u>51,892,959</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	524,938	250,000	774,938
Customer deposits	49,250	64,889	114,139
Accrued wages and benefits	209,806	-	209,806
Accrued interest payable	75,545	-	75,545
Unearned revenue	3,719	-	3,719
Current portion of:			
Compensated absences	134,700	24,498	159,198
Capital leases	87,822	-	-
Certificates of Participation	200,000	-	200,000
Notes payable	26,042	258,846	284,888
Bonds payable	30,000	-	30,000
Long-term portion of:			
Capital leases	148,888	-	148,888
Certificates of Participation	920,000	-	920,000
Notes payable	702,394	413,849	1,116,243
Bonds payable	765,000	-	765,000
Total liabilities	<u>3,878,104</u>	<u>1,012,082</u>	<u>4,802,364</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	24,622,170	5,866,061	30,488,231
Restricted for:			
Highways and streets	4,039,893	-	4,039,893
Grant purposes	189,556	-	189,556
Debt service	103,193	280,510	383,703
Special revenues	2,093,206	-	2,093,206
Capital projects	229,045	140,196	369,241
Unrestricted	3,984,026	5,454,917	9,438,943
Total net assets	<u>\$ 35,261,089</u>	<u>\$ 11,741,684</u>	<u>\$ 47,002,773</u>

The notes to the financial statements are an integral part of this statement.

Town of Florence, Arizona  
Statement of Activities  
For The Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,540,863	\$ 728,483	\$ -	\$ -
Public safety	2,505,870	42,798	63,304	77,379
Highways and streets	1,821,183	-	-	230,010
Culture and recreation	1,122,254	-	10,371	-
Community development	793,144	294,944	70,600	331,807
Interest on long-term debt	306,219	-	-	-
Total governmental activities	<u>8,089,533</u>	<u>1,066,225</u>	<u>144,275</u>	<u>639,196</u>
Business-type activities:				
Water	669,890	1,067,010	-	-
Sewer	671,123	1,085,545	-	-
Sanitation	457,941	513,564	-	-
North Florence Water	423,627	351,061	-	-
North Florence Sewer	374,533	321,248	-	-
Total business-type activities	<u>2,597,114</u>	<u>3,338,428</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 10,686,647</u>	<u>\$ 4,404,653</u>	<u>\$ 144,275</u>	<u>\$ 639,196</u>
General revenues:				
Property taxes				
Sales and use taxes				
Franchise taxes				
Shared revenues:				
State sales taxes				
Urban revenue sharing				
Auto-in-lieu				
Half-cent sales tax				
Other				
Donation of capital assets				
Investment earnings				
Miscellaneous				
Transfers in (out)				
Total general revenues and transfers				
Change in net assets				
Net assets-beginning				
Prior period adjustment				
Net assets-beginning-restated				
Net assets-ending				

The notes to the financial statements are an integral part of this statement.



Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (812,380)	\$ -	\$ (812,380)
(2,322,389)	-	(2,322,389)
(1,591,173)	-	(1,591,173)
(1,111,883)	-	(1,111,883)
(95,793)	-	(95,793)
(306,219)	-	(306,219)
<u>(6,239,837)</u>	<u>-</u>	<u>(6,239,837)</u>
-	397,120	397,120
-	414,422	414,422
-	55,623	55,623
-	(72,566)	(72,566)
-	(53,285)	(53,285)
<u>-</u>	<u>741,314</u>	<u>741,314</u>
<u>(6,239,837)</u>	<u>741,314</u>	<u>(5,498,523)</u>
264,550	-	264,550
1,215,402	-	1,215,402
212,421	-	212,421
3,107,210	-	3,107,210
1,491,452	-	1,491,452
794,323	-	794,323
1,085,213	-	1,085,213
88,116	-	88,116
9,805,747	-	9,805,747
187,057	120,596	307,653
515,841	22,391	538,232
269,736	(269,736)	-
<u>19,037,068</u>	<u>(126,749)</u>	<u>18,910,319</u>
<u>12,797,231</u>	<u>614,565</u>	<u>13,411,796</u>
<u>20,698,414</u>	<u>11,127,119</u>	<u>31,825,533</u>
<u>1,765,444</u>	<u>-</u>	<u>1,765,444</u>
<u>22,463,858</u>	<u>11,127,119</u>	<u>33,590,977</u>
<u>\$ 35,261,089</u>	<u>\$ 11,741,684</u>	<u>\$ 47,002,773</u>

Town of Florence, Arizona  
Balance Sheet  
Governmental Funds  
June 30, 2005

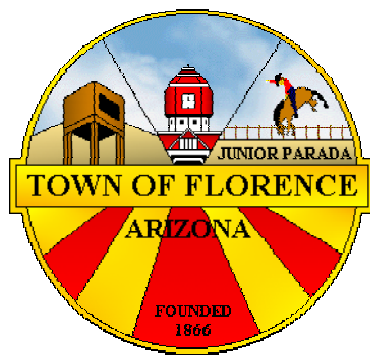
ASSETS	General	Highway User	Debt Service
Cash and cash equivalents	\$ 3,442,538	\$ 3,768,087	\$ 105,341
Receivables (net of allowance for uncollectibles)	434,588	290,235	790,485
Due from other governments	-	-	-
Prepays	293,795	-	-
Total assets	<u>\$ 4,170,921</u>	<u>\$ 4,058,322</u>	<u>\$ 895,826</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and other current liabilities	\$ 524,788	\$ -	\$ 150
Customer deposits	49,250	-	-
Accrued wages and benefits	209,806	-	-
Deferred revenue	-	-	792,483
Total liabilities	<u>783,844</u>	<u>-</u>	<u>792,633</u>
Fund balances:			
Reserved for:			
Debt service	-	-	103,193
Operations	663,277	426,945	-
Unreserved, reported in:			
General fund	2,723,800	-	-
Special revenue funds	-	3,631,377	-
Total fund balances	<u>3,387,077</u>	<u>4,058,322</u>	<u>103,193</u>
Total liabilities and fund balance	<u>\$ 4,170,921</u>	<u>\$ 4,058,322</u>	<u>\$ 895,826</u>

The notes to the financial statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 2,478,388	\$ 9,794,354
14,536	1,529,844
18,884	18,884
-	293,795
<u>\$ 2,511,808</u>	<u>\$ 11,636,877</u>

\$ -	\$ 524,938
-	49,250
-	209,806
-	792,483
<u>-</u>	<u>1,576,477</u>

-	103,193
-	1,090,222
-	2,723,800
2,511,808	6,143,185
<u>2,511,808</u>	<u>10,060,400</u>
<u>\$ 2,511,808</u>	<u>\$ 11,636,877</u>



Town of Florence, Arizona  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds  
June 30, 2005

Fund balance - total governmental funds balance sheet		\$ 10,060,400
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 37,161,431	
Less accumulated depreciation	<u>(9,659,115)</u>	27,502,316
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(134,700)	
Capital leases	(236,710)	
Certificate of participation	(1,120,000)	
Notes payable	(728,436)	
Bonds payable	<u>(795,000)</u>	(3,014,846)
Deferred revenue is shown on the governmental funds, but is not deferred on the statement of net assets.		
Special assessments		788,764
Interest payable on long-term debt is not reported in the governmental funds.		
		<u>(75,545)</u>
Net assets of governmental activities - statement of net assets		<u><u>\$ 35,261,089</u></u>

Town of Florence, Arizona  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For The Year Ended June 30, 2005

REVENUES	General	Highway User	Debt Service
Taxes	\$ 1,272,872	\$ 2,686,238	\$ -
Franchise fees	212,421	-	-
Licenses and permits	111,165	-	-
Intergovernmental revenues	3,801,986	88,090	-
Charges for services	685,603	-	-
Fines	40,969	-	-
Special assessments	-	-	491,800
Investment earnings	57,997	73,737	7,051
Contributions and donations	-	-	-
Miscellaneous	25,338	71,973	-
Total revenues	<u>6,208,351</u>	<u>2,920,038</u>	<u>498,851</u>
EXPENDITURES			
Current:			
General government	1,326,233	-	-
Public safety	2,298,223	-	-
Highways and streets	-	983,809	-
Culture and recreation	1,041,367	-	-
Community development	151,832	-	-
Capital outlay	57,588	298,871	-
Debt service:			
Principal	264,086	34,473	440,000
Interest and fiscal charges	113,640	5,750	111,284
Total expenditures	<u>5,252,969</u>	<u>1,322,903</u>	<u>551,284</u>
Excess (deficiency) of revenues over (under) expenditures	<u>955,382</u>	<u>1,597,135</u>	<u>(52,433)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	418,151	-	-
Transfers out	(30,027)	(130,260)	-
Total other financing sources and uses	<u>388,124</u>	<u>(130,260)</u>	<u>-</u>
Net change in fund balances	<u>1,343,506</u>	<u>1,466,875</u>	<u>(52,433)</u>
Fund balances - beginning of year	1,845,522	2,573,018	155,626
Prior period adjustments	198,049	18,429	-
Fund balances - beginning of year - restated	<u>2,043,571</u>	<u>2,591,447</u>	<u>155,626</u>
Fund balances - end of year	<u>\$ 3,387,077</u>	<u>\$ 4,058,322</u>	<u>\$ 103,193</u>

The notes to the financial statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 207,080	\$ 4,166,190
-	212,421
-	111,165
503,740	4,393,816
229,613	915,216
-	40,969
-	491,800
48,272	187,057
27,070	27,070
431,312	528,623
<u>1,447,087</u>	<u>11,074,327</u>

23,378	1,349,611
42,011	2,340,234
1,256	985,065
-	1,041,367
541,663	693,495
279,685	636,144
-	738,559
-	230,674
<u>887,993</u>	<u>8,015,149</u>
<u>559,094</u>	<u>3,059,178</u>

63,460	481,611
(51,588)	(211,875)
<u>11,872</u>	<u>269,736</u>
<u>570,966</u>	<u>3,328,914</u>
<u>1,897,896</u>	<u>6,472,062</u>
<u>42,946</u>	<u>259,424</u>
<u>1,940,842</u>	<u>6,731,486</u>
<u>\$ 2,511,808</u>	<u>\$ 10,060,400</u>

Town of Florence, Arizona  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For The Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$	3,328,914
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, assets contributed to the Town are not reported in the fund statements and are reported in the statement of activities.

Contributions	\$ 9,805,747		
Expenditures for capitalized assets	579,557		
Less current year depreciation	<u>(1,318,977)</u>		9,066,327

Revenues received in the current year that were accrued in the statement of activities in prior years			
Special assessments			(263,046)

Interest expense in the statement of activities differs from the amount reported in governmental funds because accrued interest was calculated for outstanding debt for the statement of activities, but is expensed when due for the governmental fund statements.			(75,545)
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Repayment of long-term debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Capital lease principal retirement	83,992		
Certificate of participation principal retirement	190,000		
Note payable principal retirement	24,567		
Bond principal retirement	<u>440,000</u>		738,559

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			<u>2,022</u>
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Change in net assets of governmental activities	\$	<u><u>12,797,231</u></u>
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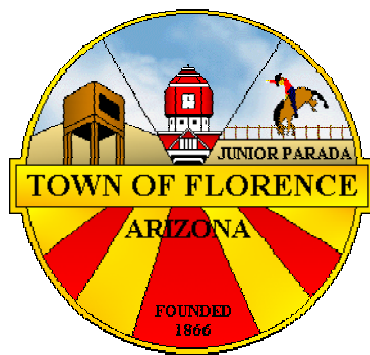


Town of Florence, Arizona  
General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For The Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 1,111,184	\$ 1,111,184	\$ 1,272,872	\$ 161,688
Franchise fees	199,500	199,500	212,421	12,921
Licenses and permits	70,500	70,500	111,165	40,665
Intergovernmental revenues	3,537,382	3,537,382	3,801,986	264,604
Charges for services	220,200	220,200	685,603	465,403
Fines	41,000	41,000	40,969	(31)
Investment earnings	30,000	30,000	57,997	27,997
Miscellaneous	424,200	424,200	25,338	(398,862)
Total revenues	5,633,966	5,633,966	6,208,351	574,385
EXPENDITURES				
Current:				
General government	1,538,768	1,538,768	1,326,233	212,535
Public safety	2,620,141	2,620,141	2,298,223	321,918
Culture and recreation	1,217,085	1,217,085	1,041,367	175,718
Community development	210,270	210,270	151,832	58,438
Capital outlay	64,000	64,000	57,588	6,412
Debt service:				
Principal	265,019	265,019	264,086	933
Interest and fiscal charges	110,991	110,991	113,640	(2,649)
Total expenditures	6,026,274	6,026,274	5,252,969	773,305
Excess (deficiency) of revenues over (under) expenditures	(392,308)	(392,308)	955,382	1,347,690
OTHER FINANCING SOURCES (USES)				
Transfers in	32,000	32,000	418,151	386,151
Transfers out	(53,869)	(53,869)	(30,027)	23,842
Total other financing sources and uses	(21,869)	(21,869)	388,124	409,993
Net change in fund balance	(414,177)	(414,177)	1,343,506	1,757,683
Fund balance - beginning of year	414,177	414,177	1,845,522	1,431,345
Prior period adjustments	-	-	198,049	198,049
Fund balance - beginning of year - restated	414,177	414,177	2,043,571	1,629,394
Fund balance - end of year	\$ -	\$ -	\$ 3,387,077	\$ 3,387,077

Town of Florence, Arizona  
Highway User Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For The Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget- Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 2,151,499	\$ 2,151,499	\$ 2,686,238	\$ 534,739
Intergovernmental revenues	88,127	88,127	88,090	(37)
Investment earnings	35,000	35,000	73,737	38,737
Miscellaneous	23,500	23,500	71,973	48,473
Total revenues	<u>2,298,126</u>	<u>2,298,126</u>	<u>2,920,038</u>	<u>621,912</u>
EXPENDITURES				
Current:				
Highways and streets	1,804,965	1,804,965	983,809	821,156
Capital outlay	1,613,000	1,613,000	298,871	1,314,129
Debt service:				
Principal	34,441	34,441	34,473	(32)
Interest and fiscal charges	5,782	5,782	5,750	32
Total expenditures	<u>3,458,188</u>	<u>3,458,188</u>	<u>1,322,903</u>	<u>2,135,285</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,160,062)</u>	<u>(1,160,062)</u>	<u>1,597,135</u>	<u>2,757,197</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(130,260)	(130,260)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(130,260)</u>	<u>(130,260)</u>
Net change in fund balance	<u>(1,160,062)</u>	<u>(1,160,062)</u>	<u>1,466,875</u>	<u>2,626,937</u>
Fund balance - beginning of year	1,160,062	1,160,062	2,573,018	1,412,956
Prior period adjustments	-	-	18,429	18,429
Fund balance - beginning of year - restated	1,160,062	1,160,062	2,591,447	1,431,385
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,058,322</u>	<u>\$ 4,058,322</u>



Town of Florence, Arizona  
Statement of Net Assets  
Proprietary Funds  
June 30, 2005

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,209,010	\$ 2,263,479	\$ 57,172
Receivables, net of uncollectibles	109,083	132,249	51,101
Total current assets	<u>2,318,093</u>	<u>2,395,728</u>	<u>108,273</u>
Noncurrent assets:			
Capital assets:			
Land	114,900	166,665	-
Buildings and improvements	2,772,959	5,039,333	-
Machinery and equipment	204,789	184,152	691,633
Less accumulated depreciation	(1,464,425)	(2,061,443)	(546,226)
Total capital assets, net	<u>1,628,223</u>	<u>3,328,707</u>	<u>145,407</u>
Total noncurrent assets	<u>1,628,223</u>	<u>3,328,707</u>	<u>145,407</u>
Total assets	<u>3,946,316</u>	<u>5,724,435</u>	<u>253,680</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	-	250,000	-
Customer deposits	36,295	-	-
Compensated absences	5,569	5,569	2,222
Notes payable	-	258,846	-
Total current liabilities	<u>41,864</u>	<u>514,415</u>	<u>2,222</u>
Noncurrent liabilities:			
Notes payable	-	413,849	-
Total noncurrent liabilities	<u>-</u>	<u>413,849</u>	<u>-</u>
Total liabilities	<u>41,864</u>	<u>928,264</u>	<u>2,222</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,628,223	2,656,012	145,407
Restricted for:			
Debt service	-	280,510	-
Capital projects	66,409	71,215	-
Unrestricted	2,209,820	1,788,434	106,051
Total net assets	<u>\$ 3,904,452</u>	<u>\$ 4,796,171</u>	<u>\$ 251,458</u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities-Enterprise Funds

North Florence Water	North Florence Sewer	Total
\$ 337,236	\$ 1,011,484	\$ 5,878,381
5,966	38,230	336,629
343,202	1,049,714	6,215,010
5,200	49,909	336,674
1,343,815	1,399,923	10,556,030
340,662	87,437	1,508,673
(1,014,908)	(775,619)	(5,862,621)
674,769	761,650	6,538,756
674,769	761,650	6,538,756
1,017,971	1,811,364	12,753,766
-	-	250,000
28,594	-	64,889
5,569	5,569	24,498
-	-	258,846
34,163	5,569	598,233
-	-	413,849
-	-	413,849
34,163	5,569	1,012,082
674,769	761,650	5,866,061
-	-	280,510
2,572	-	140,196
306,467	1,044,145	5,454,917
\$ 983,808	\$ 1,805,795	\$ 11,741,684

Town of Florence, Arizona  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For The Year Ended June 30, 2005

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
Operating revenues:			
Development fees	\$ 53,882	\$ 67,714	\$ -
Water sales	861,396	-	-
Water connection fees	12,970	-	-
Service establishment fees	8,590	-	-
Sewer service fees	-	652,013	-
Sewer connection fees	-	28,000	-
DOC usage fees	-	337,818	-
Water standpipe	3,819	-	-
Hydro-sprinkler fees	16,957	-	-
Central Arizona Project	101,581	-	-
Refuse collection fees	-	-	513,564
Effluent charges	7,815	-	-
Miscellaneous	5,491	52	14,255
Total operating revenue	<u>1,072,501</u>	<u>1,085,597</u>	<u>527,819</u>
Operating expenses:			
Personal services	140,147	138,694	155,433
Supplies	27,123	40,441	54,566
Contractual services and maintenance	392,736	379,172	175,628
Depreciation	107,759	97,028	72,314
Total operating expenses	<u>667,765</u>	<u>655,335</u>	<u>457,941</u>
Operating income (loss)	<u>404,736</u>	<u>430,262</u>	<u>69,878</u>
Nonoperating revenues (expense):			
Interest income	46,913	39,848	765
Interest expense	(2,125)	(15,788)	-
Total nonoperating revenues (expense)	<u>44,788</u>	<u>24,060</u>	<u>765</u>
Income (loss) before transfers	<u>449,524</u>	<u>454,322</u>	<u>70,643</u>
Transfers out	<u>(80,532)</u>	<u>(47,616)</u>	<u>(44,028)</u>
Change in net assets	368,992	406,706	26,615
Total net assets-beginning of year	3,535,460	4,389,465	224,843
Total net assets-end of year	<u>\$ 3,904,452</u>	<u>\$ 4,796,171</u>	<u>\$ 251,458</u>

The notes to the financial statements are an integral part of this statement.

Business-type Activities-Enterprise Funds		
North Florence Water	North Florence Sewer	Total
\$ -	\$ -	\$ 121,596
296,773	-	1,158,169
12,250	-	25,220
7,290	-	15,880
-	312,898	964,911
-	8,350	36,350
-	-	337,818
-	-	3,819
1,650	-	18,607
25,395	-	126,976
-	-	513,564
7,703	-	15,518
-	2,593	22,391
<u>351,061</u>	<u>323,841</u>	<u>3,360,819</u>
132,650	126,651	693,575
19,448	21,440	163,018
172,500	155,818	1,275,854
99,029	70,624	446,754
<u>423,627</u>	<u>374,533</u>	<u>2,579,201</u>
<u>(72,566)</u>	<u>(50,692)</u>	<u>781,618</u>
8,209	24,861	120,596
-	-	(17,913)
<u>8,209</u>	<u>24,861</u>	<u>102,683</u>
(64,357)	(25,831)	884,301
<u>(52,872)</u>	<u>(44,688)</u>	<u>(269,736)</u>
(117,229)	(70,519)	614,565
1,101,037	1,876,314	11,127,119
<u>\$ 983,808</u>	<u>\$ 1,805,795</u>	<u>\$ 11,741,684</u>

Town of Florence, Arizona  
Statement of Cash Flows  
Proprietary Funds  
For The Year Ended June 30, 2005

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 1,083,880	\$ 1,046,259	\$ 524,222
Payments to suppliers	(419,859)	(169,613)	(230,194)
Payments to employees	(140,960)	(139,511)	(154,244)
Other receipts	14,939	-	(14,939)
Net cash provided by operating activities	538,000	737,135	124,845
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	(80,532)	(47,616)	(44,028)
Net cash used by noncapital financing activities	(80,532)	(47,616)	(44,028)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(24,132)	(456,650)	(24,349)
Proceeds from capital debt	-	423,178	-
Principal paid on capital debt	(55,000)	(250,483)	-
Interest paid on capital debt	(2,125)	(15,788)	-
Net cash used by capital and related financing activities	(81,257)	(299,743)	(24,349)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends received	46,913	34,215	408
Net cash provided by investing activities	46,913	34,215	408
Net increase (decrease) in cash and cash equivalents	423,124	423,991	56,876
Cash and cash equivalents at beginning of year	1,785,886	1,839,488	296
Cash and cash equivalents at end of year	\$ 2,209,010	\$ 2,263,479	\$ 57,172

The notes to the financial statements are an integral part of this statement.



Business-type Activities-Enterprise Funds		
North Florence Water	North Florence Sewer	Total
\$ 334,051	\$ 326,887	\$ 3,315,299
(191,948)	(177,258)	(1,188,872)
(133,463)	(127,464)	(695,642)
-	-	-
8,640	22,165	1,430,785
(52,872)	(44,688)	(269,736)
(52,872)	(44,688)	(269,736)
-	-	(505,131)
-	-	423,178
-	-	(305,483)
-	-	(17,913)
-	-	(405,349)
7,110	21,491	110,137
7,110	21,491	110,137
(37,122)	(1,032)	865,837
374,358	1,012,516	5,012,544
\$ 337,236	\$ 1,011,484	\$ 5,878,381

(Continued)

Town of Florence, Arizona  
Statement of Cash Flows  
Proprietary Funds (Continued)  
For The Year Ended June 30, 2005

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Sanitation
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	<u>\$ 404,736</u>	<u>\$ 430,262</u>	<u>\$ 69,878</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	107,759	97,028	72,314
(Increase) decrease in accounts receivable	3,223	(39,338)	(3,597)
(Increase) decrease in due from other funds	14,939	-	(14,939)
Increase (decrease) in accounts payable	-	250,000	-
Increase (decrease) in customer deposits	8,156	-	-
Increase (decrease) in accrued wages	-	-	-
Increase (decrease) in compensated absences	(813)	(813)	1,189
Total adjustments	<u>133,264</u>	<u>306,877</u>	<u>54,967</u>
Net cash provided by operating activities	<u><u>\$ 538,000</u></u>	<u><u>\$ 737,139</u></u>	<u><u>\$ 124,845</u></u>

The notes to the financial statements are an integral part of this statement.

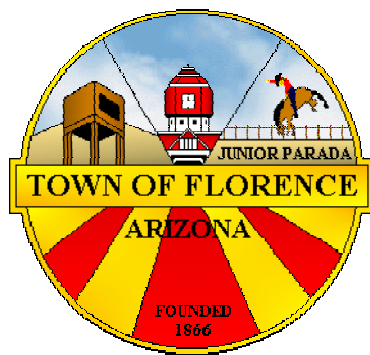
Business-type Activities-Enterprise Funds		
North Florence Water	North Florence Sewer	Total
<u>\$ (72,566)</u>	<u>\$ (50,692)</u>	<u>\$ 781,618</u>
99,029	70,624	446,754
(2,158)	3,046	(38,824)
-	-	-
-	-	250,000
(14,852)	-	(6,696)
(813)	(813)	(1,626)
-	-	(437)
<u>81,206</u>	<u>72,857</u>	<u>649,171</u>
<u><u>\$ 8,640</u></u>	<u><u>\$ 22,165</u></u>	<u><u>\$ 1,430,789</u></u>

Town of Florence, Arizona  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2005

	<u>Pension Trust</u>
ASSETS	
Cash and cash equivalents	\$           -
Investments	<u>243,041</u>
Total assets	<u>243,041</u>
LIABILITIES	
Accounts payable	<u>1,797</u>
Total liabilities	<u>1,797</u>
NET ASSETS	
Held in trust for pension benefits and other purposes	<u><u>\$       241,244</u></u>

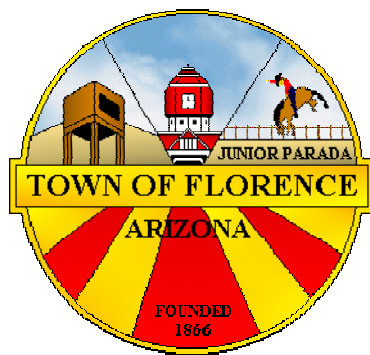
Town of Florence, Arizona  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For The Year Ended June 30, 2005

	<u>Pension Trust</u>
ADDITIONS	
Contributions:	
Employee	\$ 5,121
Total contributions	<u>5,121</u>
Investment earnings:	
Change in market value	<u>9,407</u>
Total investment earnings	<u>9,407</u>
Total additions	<u>14,528</u>
DEDUCTIONS	
Pension withdrawals	<u>11,688</u>
Total deductions	<u>11,688</u>
Change in net assets	2,840
Net assets-beginning of year	<u>238,404</u>
Net assets-end of year	<u>\$ 241,244</u>



## **FINANCIAL SECTION**

### **NOTES TO FINANCIAL STATEMENTS**





**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Town of Florence, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Reporting Entity**

The Town is a municipal entity governed by an elected Mayor and council. The basic financial statements of the town include the funds of all organizational entities for which the Town Council has oversight responsibility or financial accountability and are consequently determined to be included in the Town's financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, the Financial Reporting Entity. The Town provides basic government services to its citizens including roads, water, sewer, sanitation, parks and recreation facilities, police and fire.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) present financial information about the Town as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, state-shared revenues, investment income and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Governmental-wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule the effect of internal activity has been eliminated from the government-wide financial statements.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses and permits, charges for service, special assessments and investment income associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Deferred revenues also arise when the Town receives resources before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes have been recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue on the governmental fund financial statements.

The Town reports the following major governmental funds:

**General Fund** - This fund is the general operating fund of the Town. It accounts for all financial resources of the Town, except those required to be accounted for in other funds.

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Highway User Fund – Special Revenue Fund - This fund is used to account for the Town's share of tax revenues that are legally restricted to the maintenance of highways within the Town's boundaries.

Special Assessment Debt Service Fund - This fund accounts for the receipts of revenues from special assessment districts and the payment of special assessment bonds.

The Town reports the following major proprietary funds:

Water Fund - This fund is used to account for the Town's water related operations.

Sewer Fund - This fund is used to account for the Town's sewer related operations.

Sanitation Fund - This fund is used to account for the activities of the Town's sanitation operations.

North Florence Water Fund – This fund is used to account for the Town's north water related operations.

North Florence Sewer Fund – This fund is used to account for the Town's north sewer related operations.

The Town reports the following fiduciary fund:

Employee Benefits Trust Fund - This Pension Trust Fund is used to account for the Town's Volunteer Firefighter's Pension Fund, a defined contribution plan for which the assets are held by the Town in a trustee capacity. The Town, as well as, the Town's firefighters make contributions to the fund.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Town follows GASB guidance as applicable to its proprietary funds, and Financial Accounting Standards Boards Statements and Interpretations, Accounting Principals Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB Pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprises fund are charges to customers for water, wastewater, and sanitation services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources, as they are needed.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Town's non-major funds are as follows:

**Special Revenue Funds**

Construction Tax	Court Enhancement
Food Tax	GrantsCommunity Services
Economic Development	Impact Fees

Fiduciary funds are reported by fund type.

**D. Cash and Cash Equivalents**

Cash represents amounts in demand deposits and amounts held in trust by financial institutions. The funds held in trust are available to the Town upon demand. Cash equivalents are defined as short-term (original maturities of three months or less), highly liquid investments that are 1) readily convertible to known amounts of cash and 2) so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

**E. Investments**

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principle and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

The State's investment pool is managed by the State Treasurer's office with no regulatory oversight. The pool is not required to register with the Securities and Exchange Commission under the 1940 Investments Advisors Act. The activity and performance of the pool is reviewed monthly by the State Board of Investment in accordance with A.R.S. §35-311. The Arizona State Treasurer issues a publicly available financial report that includes financial statements and required supplementary information. Copies may be obtained by contacting the Arizona State Treasurer, 1700 West Washington, Phoenix, Arizona 85007. The fair value of a participant's position in the pool approximates the value of that participant's pool share.

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of the interfund loans). There were no interfund receivables or payables at June 30, 2005.

All trade and property tax receivables are shown net of allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivables allowance for uncollectibles.

Property taxes are levied by the Town and collected by the Pinal County Treasurer. Property taxes are levied no later than the third Monday in August and are payable in two installments due October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquent date. Pursuant to A.R.S., a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

**G. Prepaid Items**

Certain payments to vendors reflect the cost applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**H. Capital Assets**

Capital assets, which include land, buildings, improvements other than buildings, vehicles, machinery, equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than three years. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Certain capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	20-70
Vehicles, machinery and equipment	3-10

**I. Compensated Absences**

The Town's employee vacation and sick leave policies provide for granting vacation and sick leave with pay. Sick leave and vacation benefits vest at the employee's current rate of pay. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignation and retirements. Resources from the General Fund are generally used to liquidate the governmental funds liabilities for compensated absences.

**J. Long-term Obligations**

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**K. Fund Equity**

In the fund financial statements, governmental funds report reservations of the fund balance for amounts that are not available for expenditures or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management's intended use of resources and reflect actual plans approved by the government's senior management. At June 30, 2005, the Town reserved fund balance for several various purposes. There are no reported designations.

**L. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

**M. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 2 – CASH AND INVESTMENTS**

At June 30, 2005, the Town had \$1,800 of cash on hand. The carrying amount of the Town's cash in bank totaled \$4,012,564 and the bank balance was \$4,082,469. The Town's deposits at June 30, 2005 were covered by Federal Depository Insurance to the extent of \$200,000. Deposits of \$3,882,469 were collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the depositor-government's name.

Funds held in the State Treasurer's Local Government Investment Pool represents a proportionate interest in the pool's portfolio; however, the Town's portion is not identified with specific investments and is not subject to custodial credit risk. At June 30, 2005, the Town's funds invested with the State Treasurer totaled \$11,658,371.

Investments

Arizona Revised Statutes (A.R.S.) authorize the Town to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings account, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona counties, cities, school districts, and special districts as specified by statute.

The Town invests in the Local Government Investment Pool 5 (LGIP), an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. The LGIP is not registered with the Securities Exchange Commission under the 1940 Investment Advisors Act. The State Board of Investment has oversight responsibilities of the investment pool in accordance with ARS 35-311. The pool's policy is to invest in fixed-rate securities with a final maturity less than 36 months from the settlement date of the purchase and variable-rate securities with final maturity less than 5 years. The dollar weighted average portfolio maturity is less than 240 days. The net asset value per share of the pool at June 30, 2005 was \$1.00.

The only other investments that the Town owns belong to the Town's Volunteer Fire Department. These funds are held by Securian Retirement Services and consist of a money market and a variable annuity.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of Town's investments to market interest rate fluctuations is provided by the following table that shows the distribution of Town's investments by maturity:

Investment Type	Total	Remaining Maturity (In Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Money Market Funds	\$ 36,300	\$ 36,300	\$ -	\$ -	\$ -
Variable Annuity	206,741	-	-	206,741	-
	<u>\$ 243,041</u>	<u>\$ 36,300</u>	<u>\$ -</u>	<u>\$ 206,741</u>	<u>\$ -</u>

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type.

Investment Type	Total	Ratings as of Year-End			
		AAA	AA-	A+	Unrated
Money Market Funds	\$ 36,300	\$ -	\$ -	\$ -	\$ 36,300
Variable Annuity	206,741	-	206,741	-	-
	<u>\$ 243,041</u>	<u>\$ -</u>	<u>\$ 206,741</u>	<u>\$ -</u>	<u>\$ 36,300</u>

**NOTE 3 – RECEIVABLES**

Receivables, net of allowance for uncollectibles as of year-end for the Town's individual major governmental funds, nonmajor governmental funds in the aggregate are as follows:

	General Fund	Highway User Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Receivables:					
Taxes	\$ 322,195	\$ 278,068	\$ -	\$ 162	\$ 600,425
Interest	10,448	12,167	1,721	7,023	31,359
Accounts	101,945	-	-	7,351	109,296
Special assessments	-	-	788,764	-	788,764
	<u>434,588</u>	<u>290,235</u>	<u>790,485</u>	<u>14,536</u>	<u>1,529,844</u>
Less:					
Allowance	-	-	-	-	-
Net receivables	<u>\$ 434,588</u>	<u>\$ 290,235</u>	<u>\$ 790,485</u>	<u>\$ 14,536</u>	<u>\$ 1,529,844</u>

The following table summarizes the Town's receivables for the enterprise funds as of June 30, 2005.

	Water Fund	Sewer Fund	Sanitation Fund	North Florence Water Fund	North Florence Sewer Fund	Total
Receivables:						
Interest	\$ 6,915	\$ 5,633	\$ 357	\$ 1,099	\$ 3,370	\$ 17,374
Accounts	104,168	127,616	52,506	5,367	35,346	325,003
	<u>111,083</u>	<u>133,249</u>	<u>52,863</u>	<u>6,466</u>	<u>38,716</u>	<u>342,377</u>
Less:						
Allowance	(2,000)	(1,000)	(1,762)	(500)	(486)	(5,748)
Net receivables	<u>\$ 109,083</u>	<u>\$ 132,249</u>	<u>\$ 51,101</u>	<u>\$ 5,966</u>	<u>\$ 38,230</u>	<u>\$ 336,629</u>



**TOWN OF FLORENCE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 3 – RECEIVABLES (Continued)**

Revenues of the enterprise funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to water	\$ 1,631
Uncollectibles related to sewer	944
Uncollectibles related to sanitation	1,674
Uncollectibles related to North Florence water	98
Uncollectibles related to North Florence sewer	<u>114</u>
Total uncollectibles for the current year	<u><u>\$ 4,461</u></u>

**NOTE 4 – CAPITAL ASSETS**

A summary of capital assets activity for the fiscal year ended June 30, 2005 follows.

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,200,090	\$ 7,730,691	\$ -	\$ 9,930,781
Total capital assets not being depreciated	<u>2,200,090</u>	<u>7,730,691</u>	<u>-</u>	<u>9,930,781</u>
Capital assets, being depreciated:				
Buildings and improvements	20,596,992	2,414,986	(34,756)	22,977,222
Vehicles, furniture and equipment	4,344,679	271,344	(362,595)	4,253,428
Total capital assets being depreciated	<u>24,941,671</u>	<u>2,686,330</u>	<u>(397,351)</u>	<u>27,230,650</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,624,862)	(1,002,262)	3,040	(6,624,084)
Vehicles, furniture and equipment	(3,080,911)	(316,715)	362,595	(3,035,031)
Total accumulated depreciation	<u>(8,705,773)</u>	<u>(1,318,977)</u>	<u>365,635</u>	<u>(9,659,115)</u>
Total capital assets, being depreciated, net	<u>16,235,898</u>	<u>1,367,353</u>	<u>(31,716)</u>	<u>17,571,535</u>
Governmental activities capital assets, net	<u><u>\$ 18,435,988</u></u>	<u><u>\$ 9,098,044</u></u>	<u><u>\$ (31,716)</u></u>	<u><u>\$ 27,502,316</u></u>

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 4 – CAPITAL ASSETS (Continued)**

<b>Business-Type Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 336,674	\$ -	\$ -	\$ 336,674
Construction in progress	-	-	-	-
Total capital assets not being depreciated	336,674	-	-	336,674
Capital assets, being depreciated:				
Buildings	5,409,967	-	-	5,409,967
Improvements other than buildings	4,686,749	459,314	-	5,146,063
Vehicles, machinery and equipment	1,469,256	45,817	(6,400)	1,508,673
Total capital assets being depreciated	11,565,972	505,131	(6,400)	12,064,703
Less accumulated depreciation for:				
Buildings	(3,969,266)	(235,570)	-	(4,204,836)
Improvements other than buildings	(456,078)	(60,033)	-	(516,111)
Vehicles, machinery and equipment	(996,923)	(151,151)	6,400	(1,141,674)
Total accumulated depreciation	(5,422,267)	(446,754)	6,400	(5,862,621)
Total capital assets, being depreciated, net	6,143,705	58,377	-	6,202,082
Business-Type activities capital assets, net	\$ 6,480,379	\$ 58,377	\$ -	\$ 6,538,756

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 80,647
Public safety	234,370
Highway and streets	908,901
Culture and recreation	80,887
Community development	14,172
Total depreciation expense	<u>\$ 1,318,977</u>
Business-type activities	
Water	\$ 107,759
Sewer	97,028
Sanitation	72,314
North Florence water	99,029
North Florence sewer	70,624
Total depreciation expense	<u>\$ 446,754</u>

**TOWN OF FLORENCE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 5 – CAPITAL LEASES**

The town has entered into lease agreements for a number of capital purchases. These leases provide bargain purchase options and transfer of title at the end of the lease term. The Town is a lessee in a lease/purchase line of credit. The agreement allows for the Town to draw up to \$600,000 to acquire equipment. The agreement expires June 30 of each fiscal year with automatic one year extensions for 10 successive years with the final renewal term ending on January 15, 2011 unless terminated by terms stipulated in the agreement. Payments include principal and interest at the bank's prime rate less .25 percent. At June 30, 2005 the interest rate was 3.0 percent and the available credit was \$489,364.

Accordingly, the assets have been capitalized at the present value of the future minimum lease payments as of the date of their inception.

The assets acquired through capital lease are as follows:

Asset:	
Machinery and Equipment	\$ 467,543
Less: accumulated depreciation	(223,291)
Total	<u>\$ 244,252</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

Year Ending, June 30	Governmental Activities	
	Principal	Interest
2006	\$ 87,822	\$ 8,161
2007	57,339	5,346
2008	32,421	2,303
2009	33,408	1,317
2010	25,720	323
Total	<u>\$ 236,710</u>	<u>\$ 17,450</u>

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 6 – CERTIFICATES OF PARTICIPATION**

On January 30, 1997, certificates of participation totaling \$2,495,000 were issued. The certificates evidence undivided proportionate interests in lease payments to be made under a lease agreement. The proceeds of the certificates were used by the Town for the construction of the town hall and other facilities. The certificates bear interest at rates from 3.75 – 5.40 percent, payable semiannually.

The certificates of participation as of June 30, 2005, will mature as follows:

Year Ending, June 30	Governmental Activities	
	Principal	Interest
2006	\$ 200,000	\$ 54,135
2007	210,000	43,575
2008	225,000	32,153
2009	235,000	19,845
2010	250,000	6,750
Total	<u>\$ 1,120,000</u>	<u>\$ 156,458</u>

**NOTE 7 – NOTES PAYABLE**

The Town has a note payable to a private party for the purchase of land. The note is payable in annual installments of \$69,748 including interest at 6%. The note is secured by a deed of trust, assignments of rents, security agreement and fixture filings. The balance was \$728,436 at June 30, 2005.

The Town signed a promissory note from the Water Infrastructure Finance Authority (WIFA) to be used for construction of a new sewer plant. As of June 30, 2005, the Town could borrow up to \$6,500,000. As of June 30, 2005, the Town has borrowed \$672,695. Payments are due semi-annually including interest at 3.339%. Subsequent to June 30, 2005, WIFA increased the note which would allow the Town to borrow up to \$7,500,000.

The annual debt service requirements to maturity as of June 30, 2005, are as follows:

Year Ending, June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 26,042	\$ 43,706	\$ 258,846	\$ 22,461
2007	27,604	42,144	267,489	13,818
2008	29,261	40,487	146,360	4,887
2009	31,016	38,732	-	-
2010	32,877	36,871	-	-
2011 - 2015	196,449	152,289	-	-
2016 - 2020	262,894	85,845	-	-
2021 - 2022	122,293	10,931	-	-
Total	<u>\$ 728,436</u>	<u>\$ 451,004</u>	<u>\$ 672,695</u>	<u>\$ 41,166</u>

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 8 – BONDS PAYABLE**

Bonds payable at June 30, 2005, consisted of the outstanding special assessment bonds presented below. The bonds were issued in 1994 to acquire Arizona Sierra Utility. The bonds are secured and payable from special assessments levied against the real property benefited by said improvements. If the assessments are not paid, the properties subject to such assessments are sold at auction. If there is no purchaser for any property offered for sale, the Town will get ownership of the property subject to any tax liens and will be liable for the remaining debt. The Town Council is required to appropriate from the General Fund of the Town the amount of the total unpaid assessments or the amount of each semiannual assessment until the total debt is paid. A summary of long-term bond debt payable at June 30, 2005, follows:

Description	Interest Rate	Maturity	Outstanding Principal June 30, 2005	Due Within One Year
Special Assessment	8.45%	01/01/19	795,000	30,000
			<u>\$ 795,000</u>	<u>\$ 30,000</u>

Annual debt service requirements to maturity on governmental bonds payable at June 30, 2005 are summarized as follows:

Fiscal year ending June 30,	Governmental Activities	
	Principal	Interest
2006	\$ 30,000	\$ 65,910
2007	30,000	63,375
2008	40,000	60,418
2009	40,000	57,038
2010	45,000	53,446
2011 - 2015	280,000	202,800
2016 - 2019	330,000	58,728
Total	<u>\$ 795,000</u>	<u>\$561,715</u>

**TOWN OF FLORENCE, ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 9 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable	\$ 1,235,000	\$ -	\$ 440,000	\$ 795,000	\$ 30,000
Notes payable	753,003	-	24,567	728,436	26,042
Certificates of participation	1,310,000	-	190,000	1,120,000	200,000
Capital leases	320,702	-	83,992	236,710	87,822
Compensated absences	136,722	136,280	138,302	134,700	134,700
Governmental activities long-term liabilities	<u>\$ 3,755,427</u>	<u>\$ 136,280</u>	<u>\$ 876,861</u>	<u>\$ 3,014,846</u>	<u>\$ 478,564</u>
<b>Business-type activities:</b>					
Notes payable	\$ 555,000	\$ 423,178	\$ 305,483	\$ 672,695	\$ 258,846
Compensated absences	26,561	26,946	29,009	24,498	24,498
Business-type activities long-term liabilities	<u>\$ 581,561</u>	<u>\$ 450,124</u>	<u>\$ 334,492</u>	<u>\$ 697,193</u>	<u>\$ 283,344</u>

**NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

**Interfund receivable/payable:**

At June 30, 2005, there were no interfund balances.

**Interfund transfers:**

Fund	Transfers Out	Transfers In
General Fund	\$ 30,027	\$ 418,151
Highway User	130,260	-
Non-Major Governmental Funds	51,588	63,460
Water	80,532	-
Sewer	47,616	-
Sanitation	44,028	-
North Water	52,872	-
North Sewer	44,688	-
Total	<u>\$ 481,611</u>	<u>\$ 481,611</u>

All transfers made during the year were routine in nature and consistent with the activities of the fund making the transfer.

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 11 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has authority to assess its members additional premiums should reserve and annual premiums be insufficient to meet the pool's obligations.

The Town is insured by the Workers' Compensation Insurance Fund for potential worker-related accidents.

**NOTE 12 – CONTINGENT LIABILITIES**

**Federal and State grants and loans** – The Town has received a number of grants and loans from both the Federal and State governments. Although the programs have been audited, not all audits have been approved as of June 30, 2005; however, the Town expects no material disallowances of expenditures.

**Lawsuits** – The Town is not a defendant in any lawsuits.

**NOTE 13 – RETIREMENT PLANS**

All full-time Town employees are covered by one of two contributory retirement and pension plans, which are administered by the State of Arizona under State Statute.

**Arizona State Retirement Plan**

**Plan Description** - The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefits pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at ASRS, 3300 Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling 602-240-2200 or 1-800-621-3778.

**Funding Policy** – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the year ended June 30, 2005 and June 30, 2004, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.20 percent retirement and .50 percent long-term disability) of the member's annual covered payroll. For the year ended June 30, 2003, the actuarially determined rate of 2.49 (2.00 percent retirement and 0.49 percent long-term

**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 13 – RETIREMENT PLANS (Continued)**

disability) was in effect. The Town's contributions to ASRS for the years ended June 30, 2005, 2004, and 2003 were \$134,019, \$131,171, and \$56,630, respectively, which were equal to the required contributions for the year.

**Arizona Public Safety Personnel Retirement System**

Plan Description - The *Public Safety Personal Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 167 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Town contributes to one PSPRS plan for police and one for firefighters. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. PSPRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at PSPRS, 1020 East Missouri Avenue, Phoenix, Arizona 85014 or by calling 602-255-5575.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates. For the year ended June 30, 2005, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 8.89% and 7.23% of the covered payroll to the Plan for the Police and Firefighters, respectively.

Annual Pension Cost - The Town's pension cost for the agent plan for the year ended June 30, 2005, and related information follows:

Contribution Rates:	<u>PSPRS – Police</u>	<u>PSPRS - Fire</u>
Town	11.07%	9.96%
Plan Members	7.65%	7.65%
Annual pension cost	\$220,533	\$114,978
Contributions made	\$220,533	\$114,978
Actuarial valuation date	June 30, 2003	June 30, 2003
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	9%	9%
Projected salary increases	6.5% - 9.5%	6.5% - 9.5%
Includes inflation at cost-of-living adjustment	5.5%	5.5%
Amortization method	Level Percentage Open	Level Percentage Open
Remaining amortization period	Open 20 Years	Open 20 Years
Asset valuation method	Smoothed Market	Smoothed Market
Post retirement benefit increases	Based on Income	Based on Income



**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 13 – RETIREMENT PLANS (Continued)**

Trend Information - Information for the PSPRS plan as of the most recent actuarial valuations follows:

<u>Plan</u>	<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS - Police	2004	14,089	100.0%	-
	2003	12,982	100.0%	-
	2002	13,730	100.0%	-
PSPRS - Fire	2004	28,908	100.0%	-
	2003	26,837	100.0%	-
	2002	36,631	100.0%	-

Funding Progress - An analysis of funding progress for each of the agent plan as most recent actuarial valuations, June 30, 2005 follows:

PSPR - Florence Police Plan:

<u>Valuation Date June 30,</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Funding Liability (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)</u>
2004	\$ 1,836,298	\$ 1,078,747	\$ 757,551	170.2%	\$ 722,939	0%
2003	1,788,523	923,168	865,355	193.7%	693,576	0%
2002	1,710,115	821,849	888,266	208.1%	589,329	0%

PSPR - Florence Fire Plan:

<u>Valuation Date June 30,</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Funding Liability (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded AAL as a Percent of Covered Payroll ([b-a]/c)</u>
2004	\$ 389,215	\$ 245,967	\$ 143,248	158.2%	\$ 312,594	0%
2003	370,308	234,099	136,209	158.2%	361,222	0%
2002	304,530	156,522	148,008	194.6%	343,076	0%

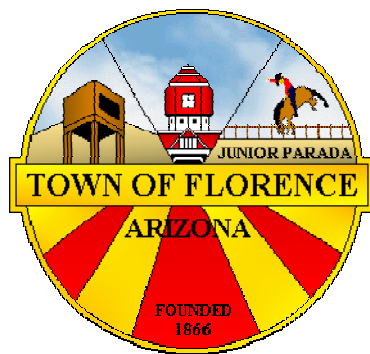
**TOWN OF FLORENCE, ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 14 – PRIOR PERIOD ADJUSTMENT**

The July 1, 2004, fund balance of the following funds does not agree to the prior year financial statements due to the correction of errors noted below.

	Government-Wide Financial Statements	Fund Financial Statements			
	<u>Governmental Activities</u>	<u>General</u>	<u>Highway User</u>	<u>Construction Tax</u>	<u>Food Tax</u>
To recognize capital assets that were donated in the prior year	\$ 590,932	\$ -	\$ -	\$ -	\$ -
To recognize special assessment revenue in proper period	\$ 1,051,810				
To correct for compensated absences included in both the fund statements and government-wide statements in the prior year	122,702	118,293	18,429	-	-
To recognize sales tax in the correct period	<u>-</u>	<u>79,756</u>	<u>-</u>	<u>39,265</u>	<u>3,681</u>
	<u><u>\$ 1,765,444</u></u>	<u><u>\$ 198,049</u></u>	<u><u>\$ 18,429</u></u>	<u><u>\$ 39,265</u></u>	<u><u>\$ 3,681</u></u>

## **COMPLIANCE REPORT**





HENRY & HORNE, LLP  
Advisors to Business

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and Council  
Town of Florence, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Florence (the "Town"), as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town of Florence's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below:

The limited number of personnel prevents a proper segregation of accounting functions necessary to assure adequate internal controls. This is not unusual in entities of this size. Management should be constantly aware of this condition and realize that concentrations of duties in a limited number of personnel could create control situations which would allow personnel to misappropriate assets.

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CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Mayor and Council  
Town of Florence, Arizona  
Page Two

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Town of Florence in a separate letter dated August 30, 2005.

This report is intended for the information and use of the Honorable Mayor, Members of the Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Henry. Howe, LLP*

August 30, 2005